

Message Text

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ACTION NEA-09

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-07 L-02

NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-07 FRB-01 TRSE-00 XMB-02

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AGR-05 IO-10 EA-06 /113 W
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R 310925Z DEC 74
FM AMEMBASSY DACCA
TO SECSTATE WASHDC 5295
AMCONSUL CALCUTTA
INFO AMEMBASSY NEW DELHI

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E.O. 11652: N/A
TAGS: EAID, EAGR, BG
SUBJECT: BANGLADESH ANTI-SMUGGLING AND RICE PROCUREMENT EFFORTS

REF: DACCA 5847

SUMMARY: REFTEL TRANSMITTED MISSION'S FOOD ASSISTANCE
RECOMMENDATION FOR FY 75. THIS COMPANION MESSAGE
DESCRIBES ANTI-SMUGGLING DRIVE AND FOOD PROCUREMENT
EFFORT, AND ARGUES THAT SUCCESS OF FORMER IS THE
MORE IMPORTANT SELF-HELP MEASURE CONTRIBUTING TO
GOAL OF FEEDING BANGLADESH AND HENCE MERITS FOREIGN
DONOR ENCOURAGEMENT. END SUMMARY

1. ANTI-SMUGGLING CAMPAIGN.

A. BANKGROUND: AREA NOW BANGLADESH HAS TRADI-
TIONALLY PROVIDED FOOD TO CALCUTTA AND INDUSTRIAL
CENTERS IN WEST BENGAL, AND OLD TRADE PATTERN WAS
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NEVER COMPLETELY BROKEN IN PAKISTAN PERIOD. IT THUS

NATURAL THAT SOME COMMODITIES CONTINUE TO BE SOLD THERE. THE INCENTIVES TO EXPORT RICE ILLEGALLY TO INDIA INCLUDE THE HIGH RATE OF PROFIT ON THE SALE OF INDIAN CONSUMER GOODS SMUGGLED INTO BANGLADESH, AND CAPITAL FLIGHT. HOWEVER, LITTLE RELIABLE INFORMATION EXISTS ON ACTUAL AMOUNTS OF RICE SMUGGLED FROM BANGLADESH TO INDIA. ESTIMATES FOR FY 74 RANGE FROM 50,000 MT (FAO REPRESENTATIVE HERE) TO OVER A MILLION MT. ONE FOOD MINISTRY SOURCE ESTIMATES PRE-INDEPENDENCE LEVELS SMUGGLES RICE AT 400/500,000 MT PER YEAR, AND TWO-THREE TIMES THIS AMOUNT SINCE. OUR BEST JUDGMENT IS THAT SIGNIFICANT QUANTITIES HAVE BEEN SMUGGLED SINCE INDEPENDENCE WITH BULK OF THESE AMOUNTS HANDLED BY RELATIVELY FEW GROUPS IN HIGHLY ORGANIZED MANNER. (CONGEN CALCUTTA MAY WISH TO COMMENT.) SMUGGLING WAS OFFICIALLY IGNORED UNTIL SPRING OF 1974 AND ITS MENTION IN 1974/75 ANNUAL DEVELOPMENT PLAN WAS ONE OF EARLIEST BDG ACKNOWLEDGEMENTS OF PROBLEM.

B. CURRENT EFFORT: BDG HAS NOW GIVEN ANTI-SMUGGLING MEASURES HIGH PUBLIC PRIORITY. SMUGGLING PROBLEM WAS HIGHLIGHTED IN DECEMBER 5 PUBLIC STATEMENT BY PRIME MINISTER AND BOTH PRIME MINISTER AND HOME AFFAIRS MINISTER DISCUSSED QUESTION DECEMBER 8 WITH VISITING INDIAN FOREIGN MINISTER CHAVAN. FURTHER MEETINGS BETWEEN BDG AND GOI HOME MINISTRY AND POLICE OFFICIALS ARE SCHEDULED.

C. COMMENT: COMBINED BDG/GOI EFFORT TO CLOSE WESTERN BORDER IS CRITICAL TO SUCCESSFUL PROCUREMENT DRIVE. WHATEVER AMOUNTS WERE SMUGGLED DURING FIRST THREE YEARS OF INDEPENDENCE, WE BELIEVE THAT MEASURES TAKEN IN PAST WEEKS ON BOTH SIDES OF BORDER ARE LIKELY REDUCE SMUGGLING DURING THIS AMAN HARVEST, AND THEREFORE WOULD HAVE BENEFICIAL IMPACT ON TOTAL SUPPLY OF RICE IN COUNTRY. IMPOSITION STATE OF EMERGENCY DECEMBER 28 SHOULD GIVE ADDED IMPETUS ANTI-SMUGGLING EFFORTS.

2. DOMESTIC RICE PROCUREMENT.
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A. BACKGROUND: DOMESTIC PROGRAM OF PADDY AND RICE PROCUREMENT IN BANGLADESH BEGAN LAST YEAR FOR THE AMAN AND BORO HARVESTS. THIS 1973-74 PROCUREMENT DRIVE BEGAN WITH AN INITIAL PROCUREMENT OF 70,000 MT OF RICE (EQUIVALENT), BUT WAS TERMINATED IN THE MIDDLE OF THE AMAN HARVEST, WHEN RICE/PADDY PRICES EXCEEDED THE PROCUREMENT PRICE, IN PART BECAUSE OF

THE GLOBAL INCREASE IN PRICES, AND THE ORIGINAL GOAL
OF SOME 400,000 MT OF PADDY WAS NEVER MET.

B. CURRENT DRIVE: FOR FY 75 THE BDG HAS TAKEN
A MORE AGGRESSIVE APPROACH TO PROCUREMENT (DACCA 5232).
PROCUREMENT PRICES FOR FY 75 ARE TK 74 FOR PADDY AND
TK 102 FOR RICE. IN THE BORDER AREAS THERE WILL
CONTINUE TO BE COMPULSORY PROCUREMENT OF PADDY AND
RICE AND, FOR THE FIRST TIME, COMPULSORY PROCUREMENT
OVER CERTAIN CEILINGS IN THE OTHER AREAS OF BANGLADESH
AND THE CORDONING OF SURPLUS DISTRICTS. THE BANGLADESH
ARMY IS OUT IN FORCE AND SEVERAL INDIAN TRADERS
REPORTEDLY HAVE BEEN SHOT. THERE IS NO OFFICIAL BDG
PROCUREMENT TARGET FOR THIS YEAR'S AMAN HARVEST BUT
THE REGIONAL FOOD CONTROLLER, RAJSHAHI, TELLS US HIS
"MAXIMUM EXPECTATION" FOR HIS DIVISION (THE WHOLE
NORTHWEST) IS SOME 200,000 MT OF RICE. THIS PROCURE-
MENT DRIVE IN RAJSHAHI IS HIGHLY DEPENDENT ON THE BDG
ABILITY TO PROCURE PADDY FROM LARGE FARMERS WHOSE AMAN
HARVEST IS NOW BEING ASSESSED PRIOR TO ACTUAL PROCURE-
MENT AND WHO WILL BE REQUIRED TO SELL PORTIONS OF THEIR
PRODUCTION AT THE GOVERNMENT PRICE IN ACCORDANCE WITH
THE FORMULA ANNOUNCED IN EARLY NOVEMBER. AS THE
FARMERS ARE STILL BEING ASSESSED, AND THE PROCUREMENT
DRIVE (AT LEAST IN RAJSHAHI DIVISION) WILL NOT GET
UNDER WAY IN EARNEST UNTIL JANUARY, IT IS PREMATURE
TO PREDICT THE OUTCOME OF THIS DRIVE. WE EXPECT TO
KNOW RESULTS IN EARLY MARCH, 1975. AGAIN, AS IN CASE
OF ANTI-SMUGGLING DRIVE, IMPOSITION OF STATE OF
EMERGENCY GIVES BDG ADDITIONAL POWERS TO ENSURE COM-
PLIANCE.

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R 310925Z DEC 74

FM AMEMBASSY DACCA

TO SECSTATE WASHDC 5296

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3. DACCA RICE MARKET. ACCORDING TO INFORMATION COLLECTED FROM DACCA RICE TRADERS ON DECEMBER 12, RETAIL PRICE FOR NEW AMAN PRICE IS TK 240 - TK 250 PER MAUND (82 POUNDS); FOR OLD (FY 74) AMAN RICE IS BETWEEN TO 280 - TK 300 PER MD. RETAILERS' AND WHOLESALERS' GODOWNS ARE FILLED WITH RICE AND BECAUSE OF AMPLE SUPPLIES, NEW RICE SHOPS HAVE SPRUNG UP. GRAIN DEALERS INTERVIEWED REPORT THAT PRICE IS NOT EXPECTED TO COME DOWN BECAUSE DACCA DISTRICT IS CORDONED OFF FOR DURATION OF PROCUREMENT DRIVE; EXCEPT FOR TANGAIL AND FARIDPUR, RICE FROM OTHER DISTRICTS CANNOT BE BROUGHT TO DACCA. PRICE IS REPORTED TO BE BELOW TK 100 IN BARISAL, PATUAKHALI, RAJSHAHI, RANGPUR, SYLHET AND MYMENSINGH. PRICE DROP IS NOT EXPECTED IN DACCA UNTIL CORDONING IS WITHDRAWN IN LATE JANUARY. THIS AMAN CROP SAID TO BE EXCELLENT BY DACCA TRADERS, WHO SEE COUNTRYWIDE FLOOD AS CAUSE.

4. COMMENT:

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A. CANADIANS' AND SOME OTHER DONORS' VIEWS:

CANADIANS MADE MAJOR POINT AT OCTOBER 24/25 BANGLADESH AID GROUP MEETING OF NECESSITY FOR BDG PROCUREMENT AS SELF-HELP MEASURE. CANADIANS ARGUE THAT SUCCESSFUL PROCUREMENT EFFORT, BY PROMPTLY MOPPING UP MARKETABLE SURPLUS, REDUCES SMUGGLING AND FACILITATES DISTRIBUTION AT STABLE PRICES THROUGHOUT YEAR. FURTHERMORE, IF BDG CONTINUES ITS PRESENT PROCUREMENT/ANTI-SMUGGLING EFFORTS, THIS SELF-HELP EFFORT MAY BE EXPECTED INFLUENCE WESTERN DONOR ATTITUDES AT NEXT SPRING'S BANGLADESH AID GROUP MEETING.

B. TO EXTENT PROCUREMENT DRIVE OBTAINS RICE THAT WOULD OTHERWISE BE SMUGGLED OUT, THIS IN NET ADDITION TO TOTAL SUPPLY FOR DISTRIBUTION THROUGH THE RATION SYSTEM AT SOME LATER DATE. IN ANY EVENT,

PROCURED RICE IS REDISTRIBUTED FROM RURAL AREAS TO CITIES. WITH PREVIOUS (1973/74) FREE MARKET TYPE, VOLUNTARY PROCUREMENT OPERATION, PROCUREMENT PRICE ACTED AS FLOOR TO BENEFIT OF FARMERS. HOWEVER, FORCED PROCUREMENT AND CORDONING, AS BEING DONE NOW, IN CONJUNCTION WITH POOR RURAL PURCHASING POWER SITUATION, WORKS TO FARMERS' DETRIMENT. FARMERS' PADDY SALE PRICE, ALTHOUGH HIGH, IS GENERALLY BELOW MARKET PRICE, AND THEIR SUPPLIES PROCURED BY THREAT OF FORCE. WHILE CORDONING CLEARLY FACILITATES PROCUREMENT, IT REPRESENTS POLITICAL DECISION PROVIDE FOOD FOR RATION SYSTEM (CITIES) AT EXPENSE OF FARMERS AND RURAL LABORERS. RATION SYSTEM DOES NOT (EXCEPT FOR KITCHENS/CAMPS) REDISTRIBUTE THIS FOOD TO RURAL POOR. IN ADDITION, CORDONING OFF OF DACCA, AND EXCEPTIONS MADE AT TANGAIL AND FARIDPUR, PROTECT LARGE PRIVATE STOCKS IN AND AROUND DACCA, AND IS SAID BY TRADERS TO BE POLITICALLY MOTIVATED. WITHOUT CORDONING, WE WOULD EXPECT RICE PRICE IN DACCA TO BE LOWER. LARGER THAN NORMAL AMOUNT OF OLD AMAN RICE IN MARKET AT PRESENT PRICES SUPPORTS THIS CONTENTION.

C. OUR VIEW: CURRENT PROCUREMENT DRIVE FACES LIMITED OFFICIAL USE

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SEVER TECHNICAL AND POLITICAL PROBLEMS. TECHNICAL PROBLEMS INCLUDE TRANSPORTATION AND STORAGE, WHILE POLITICAL PROBLEMS INCLUDE DIFFICULTIES OF ACCURATELY ASSESSING, AND ACTUALLY PURCHASING RICE PRODUCED BY THE INFLUENTIAL LARGER FARMERS, ON WHICH SUCCESS OF DRIVE DEPENDS. FURTHERMORE, WE BELIEVE THAT CURRENT PROCUREMENT EFFORT (WITH ITS USE OF CORDONING AND COMPULSION) IS NOT RPT NOT OPTIMUM USE OF EXTREMELY SCARCE BDG MANAGEMENT RESOURCES. GIVEN PRIMARILY MIDDLE-CLASS RECIPIENTS OF RATIONED FOOD, REDISTRIBUTION BY PROCUREMENT THROUGH RATION SYSTEM WOULD INVOLVE AT LEAST CONSIDERABLE DUPLICATION OF EXISTING COMMERCIAL CHANNELS. PROCUREMENT IN, SAY, NORTHWEST (100 MILES FROM DACCA) FOR SALE IN DACCA IS AT LEAST AS WELL DONE BY COMMERCIAL CHANNELS. (THERE IS, OF COURSE, NO EARLY PRACTICAL POSSIBILITY OF DOMESTIC PROCUREMENT REPLACING NEED FOR IMPORTED GRAINS TO SUPPLY RATION SYSTEM TO WHICH GOVERNMENT REMAINS POLITICALLY COMMITTED.) THUS, IF OUR OBJECTIVE IS TO ENCOURAGE BETTER DISTRIBUTION OF AVAILABLE FOOD, WE SUGGEST WE, AND OTHER DONORS, ENCOURAGE TO GREATER EXTENT ANTI-SMUGGLING DRIVE, WHICH LIMITS OUTFLOW AND THUS INCREASES TOTAL IN-COUNTRY AVAILABILITY OF FOODGRAINS, RATHER THAN ENCOURAGING RICE PROCUREMENT EFFORT.

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